

# TAMKIN DEVELOPMENT CORPORATION

---

Real Estate Developers and Investors

May 11, 2010

Mr. Kevin Shannon  
Vice Chairman  
CB Richard Ellis  
990 W. 190th St  
Suite 100  
Torrance, CA 90502

**Re: Golden State Portfolio  
San Francisco, Los Angeles, Sacramento, CA**

## LETTER OF INTENT

Dear Mr. Shannon:

This Letter of Intent (this "Letter") will outline the basic terms and conditions of our proposal under which Tamkin Development Corporation and/or its assignees (collectively, the "Buyer") will purchase, on an "all cash" basis, the Golden State Portfolio, a 7.3 million square foot, 11 property office portfolio as listed in "Schedule A" attached hereto and made a part hereof (the "Property"), and lease the Property back to the State of California (the "Seller", "State" or "Lessee") and subject to the terms set forth on Exhibit B, except as modified hereby.

### **PURCHASE PRICE:**

The Purchase Price for the Property is listed in "Schedule A" including a breakdown for each individual building. To meet the goals of the State, this letter proposes alternative purchase prices as follows:

Alternative 1: **\$1,815,172,432** – Based upon 20 year operating lease per FASB/GASB

Alternative 2: **\$2,024,015,913** – Based upon 20 year capital lease.

Alternative 3: **\$1,937,303,211** – Based upon 25 year operating lease per FASB/GASB.

Alternative 4: **\$2,299,552,945** – Based upon 25 year capital lease.

Alternative 5: **\$2,380,604,537** – Based upon 30 year capital lease.

**ANNUAL APPROPRIATION:**

All Capital and Operating lease payments are subject to annual appropriations by the State, but a default by Lessee will allow Lessor to resort to its remedies under law.

**PROPERTY TO BE PURCHASED AND CONVEYED:**

The Property includes all of Seller's rights, title and interest under, in or to the Property and includes all other personalty, tenant leases and deposits, documents, rights, claims, security agreements, participation agreements and other interests belonging to Seller and related to the Property. Buyer would not assume any obligations except as explicitly set forth herein.

**LEASE TERMS:**

A summary of the proposed Lease Terms is contained in "Schedule B" and made a part hereof.

**DUE DILIGENCE:**

Seller agrees to deliver to, or make available to Buyer, all documents and records (or copies thereof) relating to the Property in possession of or available to Seller (the "Documentation"), including, but not limited to the following:

1. Environmental Impact Report (EIR), soils report, physical inspection report, and toxic or zoning studies of any type.
2. Current and complete title report, including full copies of all exceptions and underlying documents.
3. Legal description and any ALTA survey, showing location of all improvements and easements.
4. Current & past three years of operating and actual budgets.
5. Any letters from, agreements with, or approvals by municipal agencies, including Federal, City, County, and State.
6. Architectural plans, including an "As Is" site plan, engineering reports, management reports and insurance reports.
7. Any current or past lawsuits or other disputes or actions related to the Property, which have occurred, maintained or been initiated over the past five years.
8. Any current inspection reports.
9. Any other information required by Buyer including any leases, subleases and/or occupancy agreements,

Upon receipt of the above, Buyer will then begin its detailed due diligence review of the Property.

**CONDITIONS PRECEDENT TO CLOSING:**

The Buyer's due diligence period (the "Inspection Period") will begin upon Buyer's written acknowledgement that it has received all of the documentation from Seller and the execution of the Purchase Agreement (the "Commencement Date"). The Inspection Period will expire Sixty (60) days later. Buyer shall have the right, at its sole discretion, to terminate this transaction for any reason during the "Inspection Period" by providing written notice to the Seller. Upon such termination, any Escrow will immediately terminate, the contract shall become null and void and any deposit shall be returned to the Buyer. The Seller shall deliver the properties free and clear of all debt and encumbrances.

**INSPECTION:**

Buyer, its lenders, and their representatives and consultants shall be allowed reasonable access to the Property and appropriate records for the purpose of making all inspections they deems necessary prior to the end of the Inspection Period and prior to closing with appropriate coordination with tenants.

**FORMAL AGREEMENTS:**

Immediately upon receipt of an executed copy of this Letter (the "Execution Date") from Seller, Buyer will have its counsel prepare formal documentation (the "Purchase Agreement") of this transaction for Seller's review and execution.

**COSTS:**

Seller will pay the cost of an extended ALTA coverage policy of title insurance (and all endorsements) issued to Buyer and its lenders, all ALTA survey costs, and all transfer taxes and documentary stamps (on both purchase and any reconveyance), if any. Buyer will be solely responsible for the costs of its inspection and due diligence. Escrow fees, recording fees, or any other costs related to the closing of the Property will be shared equally between Buyer and Seller. Each party will pay its own legal fees.

Seller will be solely responsible for the payment of a real estate brokerage commission, pursuant to a separate agreement, to CB Richard Ellis. Buyer will be solely responsible for a transaction fee to be paid to Wheeler Realty and all financing costs to RBC Capital Markets pursuant to separate agreements.

**EXCLUSIVITY:**

In consideration of Buyer's continued effort and expense in analyzing this acquisition, Seller agrees that as long as Buyer is proceeding in good faith to negotiate the terms of the Purchase Agreement, Seller and its representatives will not make or accept any offers or have any negotiations or discussions for or in connection with the lease, sale or purchase of the Property.

**EXPRESSION OF INTEREST:**

With the exception of Section 9 ("Exclusivity") above, this Letter is not intended to be binding and will not give rise to any right or obligation based on any legal or equitable theory (including any right to continue negotiations), it being intended that only a subsequent formal Purchase Agreement, if executed, delivered by both parties, will otherwise bind the parties as

Mr. Kevin Shannon  
May 11, 2010  
Page 4

to any matter which is subject of this Letter. Subject to the foregoing, this proposal is subject to final executed contracts between the parties.

**FACSIMILES AND COUNTERPARTS:**

Transmission of all executed documents by facsimile and use of counterparts will be acceptable to the parties.

If the terms and conditions herein meet with your approval, please execute a copy of this Letter in the space provided below and return by fax to (310) 473-9250 or email to jeff@tamkin.com no later than 5:00 PM, May 18, 2010, after which this proposal shall be null and void and not capable of acceptance.

We look forward to working with you on this transaction.

Sincerely,

**TAMKIN DEVELOPMENT CORPORATION**



Jeffrey H. Tamkin  
President

ACCEPTED AND AGREED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2010

SELLER: STATE OF CALIFORNIA

\_\_\_\_\_  
\_\_\_\_\_

## "SCHEDULE A"

Alternative 1 20 - Year Operating Lease					
Building Name	Purchase Price	Net Base Rent <small>(Subject to Annual Appropriation)</small>	Expense Allowances	Gross Rent <small>(Subject to Annual Appropriation)</small>	
Attorney General Building	\$ 111,187,566	\$ 9,501,908	\$ 3,866,513	\$	\$ 13,368,421
California Emergency Management Agency	\$ 33,427,800	\$ 2,921,245	\$ 649,377	\$	\$ 3,570,622
Capitol Area East End Complex	\$ 450,732,510	\$ 34,733,089	\$ 15,939,711	\$	\$ 50,672,800
Elihue M. Harris Building	\$ 163,541,569	\$ 12,229,038	\$ 9,973,098	\$	\$ 22,202,136
Franchise Tax Board Complex	\$ 428,896,484	\$ 33,313,052	\$ 15,881,320	\$	\$ 49,194,372
Earl Warren / Hiram Johnson (Civic Center)	\$ 263,422,757	\$ 21,539,043	\$ 13,836,962	\$	\$ 35,376,005
Junipero Serra State Building	\$ 80,092,688	\$ 6,562,498	\$ 4,939,648	\$	\$ 11,502,146
Justice Building (4949 Broadway)	\$ 57,491,700	\$ 4,727,081	\$ 4,224,806	\$	\$ 8,951,887
Public Utilities Commission Building	\$ 71,375,338	\$ 5,949,729	\$ 4,310,707	\$	\$ 10,260,436
Judge Joseph A. Rattigan Building	\$ 12,299,000	\$ 990,242	\$ 1,176,046	\$	\$ 2,166,288
Ronald Reagan State Building	\$ 142,705,019	\$ 11,789,593	\$ 8,252,939	\$	\$ 20,042,532
<b>Total</b>	<b>\$ 1,815,172,432</b>	<b>\$ 144,256,518</b>	<b>\$ 83,051,127</b>	<b>\$</b>	<b>\$ 227,307,645</b>

Alternative 2 20 - Year Capital Lease					
Building Name	Purchase Price	Net Base Rent <small>(Subject to Annual Appropriation)</small>	Expense Allowances	Gross Rent <small>(Subject to Annual Appropriation)</small>	
Attorney General Building	\$ 131,068,198	\$ 9,501,908	\$ 3,866,513	\$	\$ 13,368,421
California Emergency Management Agency	\$ 39,521,444	\$ 2,921,245	\$ 649,377	\$	\$ 3,570,622
Capitol Area East End Complex	\$ 481,794,931	\$ 34,733,089	\$ 15,939,711	\$	\$ 50,672,800
Elihue M. Harris Building	\$ 175,600,559	\$ 12,229,038	\$ 9,973,098	\$	\$ 22,202,136
Franchise Tax Board Complex	\$ 463,039,395	\$ 33,313,052	\$ 15,881,320	\$	\$ 49,194,372
Earl Warren / Hiram Johnson (Civic Center)	\$ 304,136,844	\$ 21,539,043	\$ 13,836,962	\$	\$ 35,376,005
Junipero Serra State Building	\$ 93,653,311	\$ 6,562,498	\$ 4,939,648	\$	\$ 11,502,146
Justice Building (4949 Broadway)	\$ 68,371,598	\$ 4,727,081	\$ 4,224,806	\$	\$ 8,951,887
Public Utilities Commission Building	\$ 84,621,278	\$ 5,949,729	\$ 4,310,707	\$	\$ 10,260,436
Judge Joseph A. Rattigan Building	\$ 14,651,160	\$ 990,242	\$ 1,176,046	\$	\$ 2,166,288
Ronald Reagan State Building	\$ 167,557,194	\$ 11,789,593	\$ 8,252,939	\$	\$ 20,042,532
<b>Total</b>	<b>\$ 2,024,015,913</b>	<b>\$ 144,256,518</b>	<b>\$ 83,051,127</b>	<b>\$</b>	<b>\$ 227,307,645</b>

Alternative 3 25 - Year Operating Lease					
Building Name	Purchase Price	Net Base Rent <small>(Subject to Annual Appropriation)</small>	Expense Allowances	Gross Rent <small>(Subject to Annual Appropriation)</small>	
<b>Portfolio</b>	<b>\$ 1,937,303,211</b>	<b>\$ 144,256,518</b>	<b>\$ 83,051,127</b>	<b>\$</b>	<b>\$ 227,307,645</b>

Alternative 4 25 - Year Capital Lease					
Building Name	Purchase Price	Net Base Rent <small>(Subject to Annual Appropriation)</small>	Expense Allowances	Gross Rent <small>(Subject to Annual Appropriation)</small>	
<b>Portfolio</b>	<b>\$ 2,299,552,945</b>	<b>\$ 144,256,518</b>	<b>\$ 83,051,127</b>	<b>\$</b>	<b>\$ 227,307,645</b>

Alternative 5 30 - Year Capital Lease					
Building Name	Purchase Price	Net Base Rent <small>(Subject to Annual Appropriation)</small>	Expense Allowances	Gross Rent <small>(Subject to Annual Appropriation)</small>	
<b>Portfolio</b>	<b>\$ 2,380,604,537</b>	<b>\$ 144,256,518</b>	<b>\$ 83,051,127</b>	<b>\$</b>	<b>\$ 227,307,645</b>

## “SCHEDULE B”

### Proposed Lease Terms

**Commencement Date:**

The Lease Term shall commence at close of escrow.

**Annual Rent:**

Listed in “Schedule A” as “Gross Rent”.

**Lease Term:**

Lease Term shall be twenty (20) years, twenty-five (25), or thirty (30) years as selected by Lessee upon designation of Lessor.

**Annual Appropriation:**

All Operating and Capital Lease payments are subject to annual appropriations by the Seller.

**Rent Escalations:**

“Net Base Rent” shall increase 10% every 5 years during the primary term and shall remain unchanged during the six successive option periods of 5-years each.

**Options:**

Upon expiration of the Primary Lease Term and repayment of the Buyer’s financing, Lessee shall have the following two options:

1. Capital Lease: Title to Property reverts to the Lessee for \$1.00.
2. Operating Lease: Conditioned upon no default and Lease being in full force effect immediately prior to the commencement of the option period, Lessee may exercise one of its six renewal options as described above. The annual rent during the option period will be equal to the sum of i) the net base rent paid for the last year of the primary term and shall remain flat throughout all of the six renewal periods and ii) the Expense Allowance.

**Security Deposit (Debt Service Reserve):** Lessee shall deposit an amount equal to the annual average “Net Base Rent” payable over the life of the primary term. As long as the remaining balance in the account is at least equal to 100% of the net base rent remaining, funds may be applied to last year’s net base rent. In lieu of a reserve fund, Seller may provide (but if so provided Lessee must maintain), in form and substance satisfactory to Buyer, a surety policy from a bond insurer or a liquidity facility (Letter of Credit) from a Buyer-acceptable bank in the same amount.

**Gas/Electricity:**

In addition to Rent, the Lessee shall pay directly the cost of gas and electricity.

**Services, Utilities and Supplies:**

Lessor, at Lessor’s sole cost and expense, with the exception of payment for gas and electricity, Lessor shall, subject to availability, provide the full range of services, utilities, and supplies to the entirety of the Lessee’s premises (including but not limited to): sewer, trash disposal, water, elevator service, janitorial services, security services and property management services all of which shall be in similar levels and quantities as those provided under other Full Service leases in comparable quality office buildings in the same market areas.

**Repair and Maintenance and Capital Repairs and Replacements:**

Lessor shall maintain the entire leased premises (including occupied space) and the building and property of which they are a part (to include site, landscape and parking areas and structures) in good repair and tenantable condition during the entire Lease Term. Such maintenance and repairs and replacements shall include but not be limited to: ongoing maintenance of designated special equipment, annual testing and maintenance of all fire extinguishers, replacing inoperative lighting, repairing floor covering as necessary and replacing all building system components (including roofs) as and when required.

**Operating Expenses:**

Expense Allowance shall cover the annual cost of Security & Fire Prevention, Cleaning & Janitorial, Repairs & Maintenance, Utilities, Management Fees, Onsite Office Expense, Administrative Payroll, Landscaping, Interior Landscape, Pest Control, and Parking Expenses.

**Property Tax Expense Escalator:**

On the first anniversary date of the Lease, and each twelve (12) months thereafter, the monthly Gross Base Rent will automatically increase by one-twelfth ( $1/12^{\text{th}}$ ) of an amount determined by multiplying the annual property tax expense for the preceding twelve (12) months by the actual percent increase, if any, from the prior year in the annual property tax expense. Initial property tax expense shall be based on the initial purchase price, and will not reflect future change in value due to subsequent sales.

**Painting and Carpet:**

Lessor agrees to provide the Lessee an allowance of \$2.00 PSF to repaint all interior painted surfaces upon or after the sixtieth ( $60^{\text{th}}$ ) month of the Lease Term and every sixty (60) months thereafter. Further, Lessor agrees to provide the Lessee an allowance of \$2.00 PSF to replace all carpet and floor covering upon or after the one hundred twentieth ( $120^{\text{th}}$ ) month of the Lease Term and every one hundred twenty (120) months thereafter. Subject to the last paragraph hereof, Lessee shall be responsible for any costs in excess of Painting and Carpet allowances.

**Assignment and Subletting:**

No assignment or subletting or licensing of all or any portion of the premises without prior written consent of the Lessor, except to the extent explicitly permitted by the financing documentation.

**Insurance:**

Subject to the requirements of the financing documentation, Lessor shall furnish to the Lessee a certificate of insurance as evidence of insurance as fully set forth in the Lease and briefly to include: (1) Commercial General Liability of not less than \$1,000,000 combined per occurrence and \$10,000,000 General Aggregate with Lessee as additional insured; (2) commercial property insurance for full replacement cost to include business income coverage equal to 24 months Rent and with Lessee as additional insured; (3) Automobile Liability with Lessee as additional insured; (4) Workers Compensation Insurance and Waiver of Subrogation in favor of Lessee; (5) Employee Dishonesty blanket insurance with limit of not less than \$1,000,000 and with Lessee named as loss payee; and (6) for demolition and construction activities, Pollution Liability coverage of not less than \$3,000,000 per occurrence and Builder's Risk/Installation Floater covering labor, materials and equipment. The Lessee shall have the option to provide said insurance in which case the Lessee shall be provided with an annual credit against its Rent equal to the amount of the proforma insurance premiums.

**Property Taxes:**

The Lessee, in addition to its rent, shall pay any property taxes assessed against the leased premises as a result of the sale of same from the Lessee to a subsequent purchaser. In the event that an obligation to pay annual property taxes does not exist, the Lessee shall be provided with an annual credit against its Rent equal to the amount of the proforma annual property taxes that are not assessed.

**Onsite Management:**

Lessor agrees to furnish onsite property management services. Said duties shall be more particularly described in exhibits to the lease. The office for management staff has not been included in the State's leased space and will not be charged to Lessee or be Lessee's responsibility

Notwithstanding anything herein or otherwise to the contrary, all Lessor's obligations hereunder are subject to Lessee's paying, and Lessee shall pay, Lessor on demand any amount needed by Lessor to discharge its payments obligations hereunder and/or under the Lease that are not covered by the Expense Allowance (not including, for avoidance of doubt, Net Base Rent).